

**COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS**

REPORT ON AUDIT

**COUNTY FLOOD CONTROL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2007**

**County of San Bernardino
Flood Control District
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Flood Control

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Flood Control District (the District), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Flood Control District as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 35 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Flood Control District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rogus, Anderson, Malody & Smith, LLP

September 26, 2007

County of San Bernardino
Flood Control District
Statement of Net Assets
June 30, 2007

	Governmental Activities <u>Flood Control</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 70,655,698
Cash with fiscal agent	3,165,256
Restricted cash	113,711
Interest receivable	585,482
Taxes receivable	3,102,677
Other receivable	9,500,000
Due from other governments	2,084,889
Total current assets	<u>89,207,713</u>
Noncurrent assets:	
Accounts receivable	3,272,102
Capital assets:	
Land	1,317,751
Buildings	759,462
Construction in progress	81,498,940
Channels, drains, dams, basins	339,514,872
Equipment and vehicles	12,250,510
Less accumulated depreciation	(185,376,154)
Deferred charges	2,004,744
Total noncurrent assets	<u>255,242,227</u>
Total assets	<u>344,449,940</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Statement of Net Assets
June 30, 2007

	Governmental Activities <u>Flood Control</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 3,316,622
Salaries and benefits payable	873,280
Retention payable	2,744,876
Interest payable	391,003
Due to other governments	1,956,003
Deferred revenue	9,450
Employee compensated absences - current portion	390,999
Lease payable - current portion	34,204
Loans payable - current portion	681,315
Customer deposits	136,420
Total current liabilities	<u>10,534,172</u>
Noncurrent liabilities:	
Employee compensated absences	1,172,998
Loans payable	7,909,472
Bonds payable	127,200,000
Premium on judgment obligation bond	423,486
Premium on refunding bond	1,385,168
Total noncurrent liabilities	<u>138,091,124</u>
Total liabilities	<u>148,625,296</u>
NET ASSETS	
Invested in capital assets, net of related debt	219,500,134
Restricted assets	113,711
Unrestricted	<u>(23,789,201)</u>
Total net assets	<u>\$ 195,824,644</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Flood Control District
Statement of Activities
For the Fiscal Year Ended June 30, 2007**

	<u>Governmental Activities Flood Control</u>
EXPENSES	
Salaries and benefits	\$ 14,161,225
Services and supplies	23,851,383
Depreciation	9,266,264
Interest	9,518,827
Total program expenses	<u>56,797,699</u>
PROGRAM REVENUES	
Operating grants and contributions	<u>20,217,374</u>
Net program expense	<u>(36,580,325)</u>
GENERAL REVENUES	
Property taxes	32,801,072
Other taxes	3,053,912
Interest	4,143,634
Rents, concessions and royalties	2,903,461
Other revenues	17,221,101
Intergovernmental	367,743
Gain on sale of capital assets	1,358,982
Total general revenues	<u>61,849,905</u>
Change in net assets	25,269,580
Net assets - beginning	<u>170,555,064</u>
Net assets - ending	<u>\$ 195,824,644</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Balance Sheet
Governmental Funds
June 30, 2007

	<u>Flood Control</u>
ASSETS	
Cash and cash equivalents	\$ 68,320,811
Cash with fiscal agent	3,165,256
Restricted cash	113,711
Customer deposits	60,000
Interest receivable	559,402
Taxes receivable	3,102,677
Other receivable	9,500,000
Due from other governments	<u>1,957,507</u>
Total assets	<u><u>\$ 86,779,364</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 3,316,622
Salaries and benefits payable	872,334
Retention payable	2,744,876
Due to other governments	1,955,296
Deferred revenue	9,450
Customer deposits	<u>196,420</u>
Total liabilities	<u>9,094,998</u>
Fund balance:	
Reserved for:	
Encumbrances	6,196,234
Unreserved:	
Undesignated	<u>71,488,132</u>
Total fund balance	<u>77,684,366</u>
Total liabilities and fund balance	<u><u>\$ 86,779,364</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
June 30, 2007

Fund Balance		\$ 77,684,366
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:		
Internal Service Fund's working capital is combined into the government-wide statement of net assets for reporting purposes.		2,486,696
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.		249,965,381
Long-term receivables related to capital assets are not receivable in the current period and are not reported in the governmental fund's balance sheet.		3,272,102
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	\$ (127,200,000)	
Loans payable	(8,590,787)	
Capital lease payable	(34,204)	
Less: deferred charges	2,004,744	
Plus: premium on debt	(1,808,654)	
Accrued interest payable	(391,003)	
Long-term compensated absences payable	(1,563,997)	(137,583,901)
Net assets of governmental activities		<u>\$ 195,824,644</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Flood Control District
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2007**

	Flood Control
REVENUES	
Property taxes	\$ 32,801,072
Other taxes	3,053,912
Governmental aid	20,172,074
Rents, concessions and royalties	2,903,461
Interest	4,030,441
Other revenues	10,881,990
	<hr/>
Total revenues	73,842,950
	<hr/>
EXPENDITURES	
Salaries and benefits	14,137,018
Services and supplies	56,557,793
Debt service:	
Principal	26,655,021
Interest	9,127,824
Bond issuance costs	1,550,667
Capital outlay:	
Equipment	9,523
Structures and improvements	105,975
	<hr/>
Total expenditures	108,143,821
	<hr/>
Excess of revenues over (under) expenditures	(34,300,871)
	<hr/>
OTHER FINANCING SOURCES (USES)	
Judgment obligation bonds issued	103,780,000
Refunding bond issued	23,845,000
Loan issued	9,552,977
Premium on judgment obligation bond	423,486
Premium on refunding bond	1,385,168
Discount on judgment obligation bond	(454,077)
Transfers in from County	367,743
Sale of capital assets	1,358,982
	<hr/>
Total other financing sources (uses)	140,259,279
	<hr/>
SPECIAL ITEM	
Litigation settlement	(102,000,000)
	<hr/>
Net change in fund balance	3,958,408
	<hr/>
Fund balance - beginning	73,725,958
	<hr/>
Fund balance - ending	\$ 77,684,366
	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Flood Control District
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the
Statement of Activities
For the Fiscal Year Ended June 30, 2007**

Net change in fund balance - total governmental funds \$ 3,958,408

Amounts reported for *governmental activities* in the statement of net assets are different because:

Internal Service Fund's net change in fund balance is "rolled into" the governmental funds' fund balance for reporting purposes in the government-wide statements of activities. This is the amount by which the internal service fund's net assets decreased. 235,990

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$36,105,319) exceeds depreciation expense (\$6,288,061) in the current period. 29,817,258

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.

Proceeds of debt	\$ (137,177,977)	
Deferred charges	2,004,744	
Premium on debt	(1,808,654)	
Payment of litigation settlement	102,000,000	
Principal payments on bonds	425,000	
Principal payments on loans	26,188,021	
Principal payments on capital lease	<u>42,000</u>	(8,326,866)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in compensated absences payable	\$ (24,207)	
Accrued interest payable on long-term liabilities	<u>(391,003)</u>	<u>(415,210)</u>

Net assets of governmental activities \$ 25,269,580

County of San Bernardino
Flood Control District
Statement of Net Assets
Proprietary Fund
June 30, 2007

	INTERNAL SERVICE FUND <u>Equipment Rental</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 2,334,887
Interest receivable	26,080
Due from other funds	<u>176,964</u>
Total current assets	<u>2,537,931</u>
Noncurrent assets:	
Capital assets:	
Vehicles	11,988,672
Equipment	37,334
Less accumulated depreciation	<u>(7,111,149)</u>
Total noncurrent assets	<u>4,914,857</u>
Total assets	<u>7,452,788</u>
LIABILITIES	
Current liabilities:	
Accrued liabilities	946
Due to other funds	49,582
Due to other governments	<u>707</u>
Total liabilities	<u>51,235</u>
NET ASSETS	
Invested in capital assets	4,914,857
Unrestricted	<u>2,486,696</u>
Total net assets	<u>\$ 7,401,553</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Statement of Revenues, Expenses, and
Changes in Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2007

	INTERNAL SERVICE FUND Equipment Rental
OPERATING REVENUES	
Charges for services	\$ 5,486,073
Government aid and grants	45,300
Total operating revenues	<u>5,531,373</u>
OPERATING EXPENSES	
Services and supplies	3,283,411
Depreciation	<u>2,978,203</u>
Total operating expenses	<u>6,261,614</u>
Operating loss	<u>(730,241)</u>
NONOPERATING REVENUES	
Investment earnings	113,193
Gain on sale of capital assets	<u>853,038</u>
Total nonoperating revenues	<u>966,231</u>
Change in net assets	235,990
Net assets - beginning	<u>7,165,563</u>
Net assets - ending	<u><u>\$ 7,401,553</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2007

	INTERNAL SERVICE FUND <u>Equipment Rental</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from interfund services provided	\$ 5,490,794
Payments to suppliers	<u>(3,322,516)</u>
Net cash provided by operating activities	<u>2,168,278</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(2,629,563)
Payment on capital lease	<u>(2,836)</u>
Net cash (used for) capital financing activities	<u>(2,632,399)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	103,346
Proceeds from sale of capital assets	<u>936,118</u>
Net cash provided by investing activities	<u>1,039,464</u>
Net increase in cash and cash equivalents	575,343
Cash and cash equivalents - beginning of the year	<u>1,759,544</u>
Cash and cash equivalents - end of the year	<u><u>\$ 2,334,887</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (730,241)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	2,978,203
Change in assets and liabilities:	
Increase in due from other funds	(52,353)
Decrease in due from other governments	11,774
Decrease in accrued liabilities	(22,766)
Decrease in due to other governments	<u>(16,339)</u>
Net cash provided by operating activities	<u><u>\$ 2,168,278</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Flood Control District (District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established under Chapter 73 of the 1939 Statutes for the State of California. The District's powers are exercised through the Board of Supervisors (Board), which is the governing body for the County. The District maintains and constructs flood control channels, basins, storm drains and dams in six geographical zones within San Bernardino County. The District also works with the neighboring counties of Los Angeles, Riverside and Orange to maintain flood control systems and clean up after disasters.

The governmental reporting entity consists of the six flood control zones, administration, the internal service fund (equipment rental) and their related groups of funds. The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

The District's six zones, administration and the internal service fund have combined resources within the County to form an integrated flood drainage and water conservation system in the incorporated and unincorporated areas of the County. The six flood control zones are as follows:

Zone	Geographical Areas (Description)
1	The westerly portion of the San Bernardino Valley extending from Beech Avenue in the Fontana area to the Los Angeles County line, all south of the San Gabriel mountain range divide. This embraces the cities or communities of Upland, Montclair, Ontario, Chino, Alta Loma, Rancho Cucamonga, Etiwanda and Guasti. (277 square miles).
2	The central areas of the San Bernardino Valley east of Zone 1 to approximately the Santa Ana River and City Creek demarcations. This includes the cities of Fontana, Rialto, San Bernardino, Colton and Grand Terrace, together with the communities of Devore, Muscoy, Del Rosa, and Bloomington. (315 square miles).
3	The east end of the San Bernardino Valley east from Zone 2 including the cities and communities of Redlands, Highland, East Highland, Mentone, Yucaipa and Loma Linda. (393 square miles).

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Reporting Entity - *Continued*

Zone	Geographical Areas (Description)
4	The Mojave River Valley from the San Bernardino mountains to Silver Lake including the cities and communities of Barstow, Hesperia, Apple Valley, Victorville, Oro Grande, Helendale, Hodge, Hinkley, Yermo and Daggett. (1,129 square miles).
5	The mountainous watershed of the Mojave River on the crest and north slopes of the San Bernardino mountains including the communities of Crestline, Lake Gregory, Lake Arrowhead, Running Springs and Green Valley Lake. (175 square miles).
6	The remainder of the County not embraced by other zones including portions of the San Gabriel and San Bernardino mountains and the semi-desert portion of the County. This embraces the cities and communities of Needles, Trona, Adelanto, Phelan, Lucerne Valley, Amboy and the Twenty-nine Palms-Morongo Valley districts. (17,900 square miles).

The District also has three Local Area Drainage Plans (LADP) and the National Pollution Discharge Elimination System Program (NPDES), which are reported with the Zones.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Balance Sheet and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues and interest to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to nine months.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue funds* used in Zones 1-6, LADP and NPDES are the government's primary operating funds. The funds account for all financial resources of the general government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to these same limitations. The government has elected not to follow subsequent private-sector guidance.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

**Measurement focus, basis of accounting, and financial statement presentation -
*Continued***

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the Flood Control District is charges to customers for equipment rental. Operating expenses for the proprietary fund include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

The *internal service fund* labeled "Equipment Rental" accounts for the activities of renting the vehicles and equipment to the six zones in Flood Control and the County Department of Transportation.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2007.

Receivables

All accounts receivable are shown net of an allowance from uncollectibles when applicable. There are no accounts receivable as of June 30, 2007.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. dams, channels, drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land, structures and equipment and vehicles) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method or the productive hours method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Basins, storm drains, channels, dams	50 to 99 years
Vehicles, governmental funds	6 years
Equipment, governmental funds	6 to 15 years
Buildings, structures	45 years
Internal Service Fund (Proprietary)	
Equipment and vehicles	productive hours

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absences liability are recorded as a noncurrent liability. In the event of retirement or termination, an employee is paid 100% of accumulated vacation pay, and those with ten or more years of continuous services are paid 30% to 50% of their accumulated sick leave.

Compensated absences activity for the year ended June 30, 2007 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 1,539,790	\$ 898,459	\$ 874,252	\$ 1,563,997

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of the differences of \$29,817,258 are as follows:

Capital outlay	\$ 36,105,319
Depreciation expense	<u>(6,288,061)</u>
Change in net assets of governmental activities	<u>\$ 29,817,258</u>

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly know as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2 - RESTRICTED CASH

Restricted cash consists of deposits received by the District from the Bureau of Reclamation for the Etiwanda / San Sevaine construction project that, per the loan agreement, are restricted for this project.

NOTE 3 - LOANS RECEIVABLE

Loans Receivable consists of a repayment agreement between Flood Control and the City of Rancho Cucamonga Redevelopment Agency regarding the Bureau of Reclamation Day Creek Loan. (See Note 7).

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 4 - CAPITAL ASSETS

The cost of building and acquiring capital assets (land, buildings, dams, channels, storm drains, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of County Flood Control as a whole, and their original costs are expensed annually over their useful lives. For the Internal Service Fund (ICA), capital assets are recorded at historical cost or at estimated historical cost if actual cost is not available. During the year of acquisition the capital assets are capitalized in the Internal Service Fund and are depreciated over their productive hours estimated life. Depreciation expense is recorded annually in the Internal Service Fund. Capital assets for the governmental type activities are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 153,582	\$ 1,164,169	\$ -	\$ 1,317,751
Construction in progress	51,098,077	33,173,741	(2,772,878)	81,498,940
Total capital assets, not being depreciated	<u>51,251,659</u>	<u>34,337,910</u>	<u>(2,772,878)</u>	<u>82,816,691</u>
Capital assets, being depreciated:				
Buildings	653,487	105,975	-	759,462
Channels, drains, dams, basins	335,090,083	4,424,789	-	339,514,872
Equipment and vehicles	243,408	9,523	(28,427)	224,504
Total capital assets, being depreciated	<u>335,986,978</u>	<u>4,540,287</u>	<u>(28,427)</u>	<u>340,498,838</u>
Less accumulated depreciation for:				
Buildings	(302,647)	(17,588)	-	(320,235)
Channels, drains, dams, basins	(171,561,437)	(6,231,723)	-	(177,793,160)
Equipment and vehicles	(141,287)	(38,750)	28,427	(151,610)
Total accumulated depreciation	<u>(172,005,371)</u>	<u>(6,288,061)</u>	<u>28,427</u>	<u>(178,265,005)</u>
Total capital assets, being depreciated, net	<u>163,981,607</u>	<u>(1,747,774)</u>	<u>-</u>	<u>162,233,833</u>
Total governmental activities, net	<u>\$ 215,233,266</u>	<u>\$ 32,590,136</u>	<u>\$ (2,772,878)</u>	<u>\$ 245,050,524</u>

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 4 - CAPITAL ASSETS - Continued

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Internal Service Fund				
Capital assets, being depreciated:				
Vehicles	\$ 11,171,639	\$ 2,629,563	\$ (1,812,530)	\$ 11,988,672
Equipment	37,334	-	-	37,334
Total capital assets, being depreciated	<u>11,208,973</u>	<u>2,629,563</u>	<u>(1,812,530)</u>	<u>12,026,006</u>
Less accumulated depreciation for:				
Vehicles	(5,862,396)	(2,978,203)	1,729,450	(7,111,149)
Equipment	-	-	-	-
Total accumulated depreciation	<u>(5,862,396)</u>	<u>(2,978,203)</u>	<u>1,729,450</u>	<u>(7,111,149)</u>
Total capital assets, being depreciated, net	<u>5,346,577</u>	<u>(348,640)</u>	<u>(83,080)</u>	<u>4,914,857</u>
Total	<u>\$ 220,579,843</u>	<u>\$ 32,241,496</u>	<u>\$ (2,855,958)</u>	<u>\$ 249,965,381</u>

At June 30, 2007 the District had \$81,498,940 in construction in progress for the following projects:

CONSTRUCTION IN PROGRESS

<u>Zone</u>	<u>Description</u>	<u>Total CIP By Project</u>	<u>Totals By Zone</u>
1	West State Street Drain	\$ 13,820,533	
1	English Canyon	164,830	
1	West Fontana Channel	633,792	
1	Sultana/Cypress Storm Drain (phase 2)	806,304	
1	Sultana Interceptor (phase 2)	204,692	
1	24 th Street Storm Drain	1,502	
1	San Sevaine System	220,337	
1	SPPL Relocation	1,599,987	
1	San Sevaine Channel IIID - Jurupa to Valley	17,585,464	
1	Etiwanda Levees	22,721,956	
1	San Sevaine RCB at Foothill	84,383	
1	Victoria Basin	19,130	
1	Etiwanda Creek - Design & Construction	7,323,679	
1	Cucamonga Storm Drain	27	
1	Cucamonga Basin #6	28,498	\$ 65,215,114

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 4 - CAPITAL ASSETS - Continued

CONSTRUCTION IN PROGRESS

<u>Zone</u>	<u>Description</u>	<u>Total CIP By Project</u>	<u>Totals By Zone</u>
2	Cactus Basin #1 to Bloomington	\$ 448,352	
2	Rialto Channel Phase 2	161,738	
2	Rialto Channel Phase 3	4,529	
2	Randall Basin	170,728	
2	Rialto Channel	3,553	
2	Del Rosa Channel	140,794	
2	Del Rosa Channel I	319	
2	Cactus Basin #3	609,325	
2	Cactus Basin #4	51,351	
2	Cactus Basin #5	46,400	
2	Rialto Channel (Ultimate Channel Design)	1,458,953	
2	West Fontana Channel	51,775	
2	Waterman Creek Bank Repair	290,343	
2	East Rialto Storm Drain	4,260	
2	Lytle Cajon Channel	128,721	
2	Sand Creek/Warm Creek	171,782	\$ 3,742,923
3	Elder Creek Channel	84,528	
3	Wilson 2 Basins	130	
3	San Timoteo Channel	2,688,837	
3	San Timoteo Channel, Phase 3B	6,900,998	9,674,493
4	Oro Grande Wash Detention Basin	7,307	
4	Mojave River at I-15	1,815,755	
4	Hesperia Detention Basin	69,720	
4	Hesperia MPD	29,009	
4	Desert Knolls Wash	415,666	
4	Desert Knolls Wash I	157	
4	Desert Knolls Wash II	66,341	
4	Mojave River Channel	87,753	
4	Mojave River Levee Phase 2	129,745	
4	Antelope Creek Wash	73,630	
4	Choiceana Outlet @ Mojave River	9,992	
4	Hesperia Basin	722	
4	Adelanto Line E-01	1,178	
4	Kitchen Wash	12,491	
4	Kitchen Wash	111,879	2,831,345
5	Rim Forest Drainage	122	
5	Cumberland Drain	2,319	2,441
6	Donnell Basin	32,177	
6	Sheep Creek	447	32,624
	Totals Zones 1-6, LADP, NPDES	<u>\$ 81,498,940</u>	<u>\$ 81,498,940</u>

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 4 - CAPITAL ASSETS - Continued

The District has active major construction projects as of June 30, 2007. The projects are financed by government aid and property taxes and include new construction and renovations of dams, channels, basins and storm drains. At year-end the government's commitments with contractors are as follows:

<u>Job Number</u>	<u>Project</u>	<u>Remaining Commitment</u>
F01566	Sultana/Cypress Storm Drain	\$ 1,987
F01087	West State Street Storm Drain	87,410
F02105	San Antonio Storm Drain	218,897
F01577	County Line Channel (Storm Drain)	385,772
F01312	English Canyon	586,727
F01502	Etiwanda Levees	2,022,729
F01363	SS Channel IID-Jurupa to Valley	1,474,442
F01744	Etiwanda Creek-Design & Construction	71,596
F01333	San Sevaine System	97,642
F01666	Cactus Basin #3	5,415
F01669	Rialto Channel	149,572
F01272	Cactus Basin #1 to Bloomington	119,120
F01760	Adelanto Line E-01	350,000
F01152	San Timoteo Channel	16,454
F01510	San Timoteo Channel, Phase 3B	7,082
F01582	Desert Knolls Wash	572
F01389	Mojave River	78,341
Total		<u><u>\$ 5,673,758</u></u>

NOTE 5 - CAPITAL LEASES PAYABLE

County Flood Control is leasing computer equipment, which is recorded in the Governmental funds, and six pick-up trucks, which is recorded in the Equipment fund. The District will acquire all rights and titles to the equipment and vehicles after the final lease payments are made.

The following is a schedule by year of future minimum lease payments as of June 30, 2007:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2008	\$ 37,339
Total minimum payments	37,339
Less: amount representing interest	(3,135)
Present value of minimum lease payments	<u><u>\$ 34,204</u></u>

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 6 - DEFERRED REVENUE

Deferred revenue represents amounts for the Etiwanda / San Sevaine project held in outside bank accounts where revenue recognition has not yet occurred. Deferred revenue is \$9,450 at June 30, 2007.

NOTE 7 - LOANS PAYABLE

Loans payable consist of loans from the United States Department of the Interior, Bureau of Reclamation for \$2,590,787 for the Day Creek Project and the United States Army Corps of Engineers for \$6,000,000 for a grand total of \$8,590,787.

Flood Control entered into a contract with the Bureau of Reclamation, for construction of the Day Creek Project. A subsequent agreement between Flood Control and the City of Rancho Cucamonga Redevelopment Agency (Agency) provides the terms and conditions for repayment of the Bureau of Reclamation loan. Payments are reflected in Zone 1 as cash contributions (from the Agency) and debt service-principal (to Bureau of Reclamation). This agreement is to be in force approximately 24 years or until the project is complete and the federal loan is repaid. Payments commenced in 1992 and the remaining balance of the loan as of June 30, 2007, is \$2,590,787.

Flood Control entered into a loan agreement with the United States Army Corps of Engineers for the San Timoteo Creek Project. The County has agreed to pay back the loan and accrued interest upon completion of the project. (Interest is to be determined by the Secretary of the Treasury upon completion of the project). This project was not completed as of June 30, 2007. The unpaid loan balance at June 30, 2007 was \$6,000,000.

The following is a schedule by year of future loan repayments as of June 30, 2007:

<u>Years Ending June 30,</u>	<u>Bureau of Reclamation Day Creek Project</u>	<u>Army Corps of Engineering San Timoteo</u>	<u>Total</u>
2008	\$ 681,315	\$ -	\$ 681,315
2009	681,315	-	681,315
2010	681,315	-	681,315
2011	546,842	-	546,842
2012	-	-	-
2013 - 2017	-	6,000,000	6,000,000
	<u>\$ 2,590,787</u>	<u>\$ 6,000,000</u>	<u>\$ 8,590,787</u>

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 8 - BONDS PAYABLE

Refunding Bonds

In May 2007, the San Bernardino County Flood Control District issued Refunding Bonds, Series 2007, in the amount of \$23,845,000. Interest on the Refunding Bonds, Series 2007 is paid at a rate from 4.25% to 5.00% payable semiannually on February 1 and August 1 of each year commencing on February 1, 2008. Principal payments are due annually in various amounts commencing August 1, 2008 through 2021.

The Bonds were issued to refund the obligation of the District under a contract with the County relating to a loan made by and between the United States of America and the County entered into under the Small Reclamation Projects Act of 1956, finance a reserve fund surety bond and pay certain expenses in connection with the issuance of the Bonds.

As a result of the advance refunding, the District decreased its overall debt service by approximately \$5,514,000 which resulted in an economic gain (difference between the present value of the debt service payments on the old and the new debt) of \$4,241,241.

The following is a schedule of principal debt service requirements to maturity as of June 30, 2007 for the Refunding Bonds:

Years Ending June 30	Refunding Bonds, Series 2007		Total
	Principal	Interest	
2008	\$ -	\$ 674,482	\$ 674,482
2009	770,000	1,233,507	2,003,507
2010	1,010,000	1,097,850	2,107,850
2011	1,350,000	1,050,650	2,400,650
2012	1,405,000	995,550	2,400,550
2013-2017	8,125,000	3,899,125	12,024,125
2018-2022	11,185,000	1,510,125	12,695,125
Totals	\$ 23,845,000	\$ 10,461,289	\$ 34,306,289

Judgment Obligation Bonds

In May 2007, the San Bernardino County Flood Control District issued Judgment Obligations Bonds, Series A in the amount of \$58,780,000 and Series B in the amount of \$45,000,000. The Series A Bonds were initially issued as auction rate securities on May 29, 2007, with an initial interest rate of 5.35% for the Initial Period, of one day. Pursuant to the Indenture of Trust all of the Series A Bonds were converted to bear interest at Fixed Interest Rates on the Established Fixed Rate Conversion Date (May 30, 2007) and were reoffered. In connection with the conversion of the Series A Bonds on the established fixed rate conversion date, \$425,000 principal amount of the Series A Bonds was paid, leaving a balance outstanding of \$58,355,000.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 8 - BONDS PAYABLE - Continued

Interest on the Series A Bonds is paid at a rate from 4.50% to 5.00% payable semiannually on February 1 and August 1 of each year commencing on February 1, 2008. Principal payments are due annually in various amounts commencing August 1, 2008 through 2029.

The Series B Bonds were issued as auction rate bonds with an initial interest rate of 3.65%, with an initial payment date of June 1, 2007. The Series B Bonds have variable interest rates that are reset every seven days by auction. The Bonds have various maturity dates ranging from 2029 to 2037.

The Bonds were issued to pay the obligation of the District under a settlement agreement relating to an inverse condemnation action against the District, finance a reserve fund surety bond and pay certain expenses in connection with the issuance of the Bonds.

The following is a schedule of principal debt service requirements to maturity as of June 30, 2007 for the Judgment Obligation Bonds:

Years Ending June 30,	Judgment Obligation Bonds		Total
	Series A	Series B	
2008	\$ -	\$ -	\$ -
2009	1,205,000	-	1,205,000
2010	1,760,000	-	1,760,000
2011	1,845,000	-	1,845,000
2012	1,940,000	-	1,940,000
2013-2017	11,150,000	-	11,150,000
2018-2022	13,700,000	-	13,700,000
2023-2027	17,010,000	-	17,010,000
2028-2032	9,745,000	11,725,000	21,470,000
2033-2037	-	27,075,000	27,075,000
2038	-	6,200,000	6,200,000
Total Principal	\$ 58,355,000	\$ 45,000,000	\$ 103,355,000

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 8 - BONDS PAYABLE - Continued

The following is a schedule of interest expense requirements to maturity as of June 30, 2007 for the Judgment Obligation Bonds:

Years Ending June 30,	Judgment Obligation Bonds		Total
	Series A	Series B	
2008	\$ 1,796,350	\$ 1,354,828	\$ 3,151,178
2009	2,656,231	2,036,111	4,692,342
2010	2,585,119	2,018,338	4,603,457
2011	2,494,994	2,019,452	4,514,446
2012	2,400,369	2,017,861	4,418,230
2013-2017	10,508,106	10,127,820	20,635,926
2018-2022	7,904,284	10,129,306	18,033,590
2023-2027	4,499,387	10,130,579	14,629,966
2028-2032	623,375	9,434,878	10,058,253
2033-2037	-	4,555,625	4,555,625
2038	-	139,346	139,346
Total Interest	<u>\$ 35,468,215</u>	<u>\$ 53,964,144</u>	<u>\$ 89,432,359</u>

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 9 - LONG TERM OBLIGATIONS

A schedule of changes in long-term obligations of the District during fiscal year 2007 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
Capital Leases	\$ 76,204	\$ -	\$ 42,000	\$ 34,204	\$ 34,204
Compensated Absences	1,539,790	898,459	874,252	1,563,997	390,999
Loan-Bureau of Rec. San Sevaine	15,788,729	9,552,977	25,341,706	-	-
Loan-Bureau of Rec. Day Creek	3,272,102	-	681,315	2,590,787	681,315
Loan - City of Loma Linda - Redevelopment	165,000	-	165,000	-	-
U.S. Army Corp of Engineers	6,000,000	-	-	6,000,000	-
Series 2007 Refunding Bond	-	23,845,000	-	23,845,000	-
JOBS Series A & B	-	103,780,000	425,000	103,355,000	-
Issuance Premium	-	1,808,654	-	1,808,654	-
Special item - Litigation Settlement Payable	102,000,000	-	102,000,000	-	-
Total	<u>128,841,825</u>	<u>139,885,090</u>	<u>129,529,273</u>	<u>139,197,642</u>	<u>1,106,518</u>
Internal Service Fund					
Capital Leases	<u>2,836</u>	<u>-</u>	<u>2,836</u>	<u>-</u>	<u>-</u>
Total	<u>2,836</u>	<u>-</u>	<u>2,836</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>\$128,844,661</u>	<u>\$139,885,090</u>	<u>\$129,532,109</u>	<u>\$139,197,642</u>	<u>\$ 1,106,518</u>

NOTE 10 - CUSTOMER DEPOSITS

Customer deposits represent amounts held by the District on behalf of customers that are required to make deposits for various projects that require rights of way, and easements and access to water for construction purposes.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 11 - NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>	<u>Internal Service Fund Activities</u>	<u>Total Governmental Activities</u>
Invested in Capital Assets, Net of Related Debt: June 30, 2007			
Net structures, construction in progress, dams, channels, drainage systems, equipment and vehicles	\$ 245,050,524	\$ 4,914,857	\$ 249,965,381
Less: Loans payable on infrastructure and capital leases on vehicles and equipment	(30,465,247)	-	(30,465,247)
	214,585,277	4,914,857	219,500,134
Restricted for Etiwanda/San Sevaine project	113,711	-	113,711
Unrestricted	(26,275,897)	2,486,696	(23,789,201)
Total Net Assets	<u>\$ 188,423,091</u>	<u>\$ 7,401,553</u>	<u>\$ 195,824,644</u>

NOTE 12 - RETENTIONS PAYABLE

The District retains 10% of construction contracts until contracts are completed and approved. Some contracts require that the retention be deposited into an escrow account. For all others, the final 10% payment is not made until the work is completed and approved. At June 30, 2007 the District's Retentions Payable balance was \$2,744,876.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 13 - RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2007.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.97% - 12.84% for general members and 11.14% - 15.09% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follows: County General 12.03%, County Safety 24.84%. All employers combined are required to contribute 14.46% of the current year covered payroll. For 2007, the County's annual pension cost of \$194,130,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 13 - RETIREMENT PLAN - Continued

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2007, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 194,130
Interest on Pension Assets	(33,738)
Adjustment to the Annual Required Contribution	44,069
Annual Pension Cost	204,461
Annual Contributions Made	194,130
Increase/(Decrease) in Pension Assets	(10,331)
Pension Assets, Beginning of Year	838,933
Pension Assets, End of Year	<u>\$ 828,602</u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2005	\$ 161,906	\$ 141,450	100%
2006	\$ 197,343	\$ 166,614	100%
2007	\$ 239,857	\$ 194,130	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2007 is \$438,668,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in respective aggregate principal amounts of \$189,070,070, \$149,825,000 and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the S.B.C.E.R.A. The current amount outstanding at June 30, 2007 is \$459,930,000.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 14 - PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2006-2007 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 15 - RISK MANAGEMENT

The District is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence and covered by CSAC EIA for up to \$10 million for employer's liability and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with an SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the County's General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.75%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. The County's investment in the agreement totaled \$50.3 million at June 30, 2007.

The total claims liability of \$129.7 million reported at June 30, 2007 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 15 - RISK MANAGEMENT - *Continued*

Changes in the claims liability amount in fiscal years 2006 and 2007 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2005-06	\$ 115,714	\$ 46,926	\$ (35,407)	\$ 127,233
2006-07	\$ 127,233	\$ 34,312	\$ (31,862)	\$ 129,683

NOTE 16 - TRANSFERS TO/FROM OTHER FUNDS

Interfund Transfers To/From transactions are used to reimburse an operating fund, and/or transfer cash between operating funds and capital project funds. When aggregating data for the government wide Statement of Net Assets and the Statement of Activities, amounts between Internal Service Funds and Governmental Funds reported as interfund activity and balances in the fund financial statements are eliminated. For the year ended June 30, 2007, the District had the following interfund activities:

	Transfers in:					
	Zone 1	Zone 2	Zone 3	Administration	LADP	Total
<u>Transfers out:</u>						
Zone 1	\$ 3,489,000	\$ -	\$ -	\$ 602,200	\$ 49,200	\$ 4,140,400
Zone 2	-	250,000	482,834	245,400	23,375	1,001,609
Zone 3	-	-	-	266,000	12,070	278,070
Zone 4	-	-	-	166,600	-	166,600
Zone 5	-	-	-	13,700	255	13,955
Zone 6	-	-	-	49,500	100	49,600
	<u>\$ 3,489,000</u>	<u>\$ 250,000</u>	<u>\$ 482,834</u>	<u>\$ 1,343,400</u>	<u>\$ 85,000</u>	<u>\$ 5,650,234</u>

NOTE 17 - COMMITMENTS AND CONTINGENCIES

The County has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 18 - SUBSEQUENT EVENTS/SPECIAL ITEM

Litigation Settlement

On November 28, 2006, the Board of Supervisors for the San Bernardino County Flood Control District (SBCFCD) approved an Agreement for Settlement and Mutual Release (Settlement) with Colonies Partners, L.P. (Colonies) regarding litigation arising out of the construction of a portion of the Interstate 210 Freeway extension and the resulting construction of a storm drain and a basin system. The total Monetary Consideration for this Settlement is \$102,000,000. In exchange, SBCFCD will resolve the litigation as well as receive title to Basins A and B, inclusive of drainage channels and related acreage of approximately 72 acres and other easements and right-of-ways, herein and after referred to as Real Property.

As required by the Settlement, SBCFCD paid Colonies \$22,000,000 on November 29, 2006. The remaining \$80,000,000 was paid on May 29, 2007 with proceeds received from the Judgment Obligation Bonds (see Note 8).

The Settlement did not specifically identify an allocation between the amount for the resolution of the Colonies' damages claims asserted in the litigation and the value of the Real Property. There is continuing litigation between SBCFCD and other parties, which has the potential to affect the ultimate allocation between the amount for the resolution of the litigation and for the Real Property. When the continuing litigation is concluded or the allocation issue is otherwise resolved, the value of the Real Property will be recognized with an appropriate adjustment to fund balance.

Required Supplementary Information
County of San Bernardino
Flood Control District
Budgetary Comparison Schedule - Special Revenue Fund
For the Fiscal Year Ended June 30, 2007

	Special Revenue Fund			
	Flood Control			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 32,055,200	\$ 32,055,200	\$ 32,801,072	\$ 745,872
Other taxes	1,582,800	1,582,800	3,053,912	1,471,112
Governmental aid	39,994,597	41,048,097	20,172,074	(20,876,023)
Rents, concessions and royalties	2,844,100	2,844,100	2,903,461	59,361
Interest	1,300,700	1,307,923	4,030,441	2,722,518
Other revenues	1,556,534	1,556,534	10,881,990	9,325,456
Total revenues	<u>79,333,931</u>	<u>80,394,654</u>	<u>73,842,950</u>	<u>(6,551,704)</u>
EXPENDITURES				
Salaries and benefits	15,405,606	16,705,606	14,137,018	2,568,588
Services and supplies	132,534,743	131,589,748	56,557,793	75,031,955
Debt service:				
Principal	1,731,300	1,936,300	26,655,021	(24,718,721)
Interest	906,275	1,156,275	9,127,824	(7,971,549)
Bond issuance costs	-	-	1,550,667	(1,550,667)
Capital outlay:				
Equipment	120,000	156,200	9,523	146,677
Vehicles	2,815,000	3,107,400	-	3,107,400
Structures and improvements	55,000	165,000	105,975	59,025
Total expenditures	<u>153,567,924</u>	<u>154,816,529</u>	<u>108,143,821</u>	<u>46,672,708</u>
Excess of revenues over (under) expenditures	<u>(74,233,993)</u>	<u>(74,421,875)</u>	<u>(34,300,871)</u>	<u>40,121,004</u>
OTHER FINANCING SOURCES (USES)				
Judgment obligation bonds issued	-	-	103,780,000	103,780,000
Refunding bond issued	-	-	23,845,000	23,845,000
Loan issued	-	-	9,552,977	9,552,977
Premium on judgment obligation bond	-	-	423,486	423,486
Premium on refunding bond	-	-	1,385,168	1,385,168
Discount on judgment obligation bond	-	-	(454,077)	(454,077)
Transfers in from County	-	-	367,743	367,743
Transfers in	9,936,389	9,936,389	5,650,234	(4,286,155)
Transfers out	(9,924,992)	(10,174,992)	(5,650,234)	4,524,758
Sale of capital assets	-	-	1,358,982	1,358,982
Total other financing sources (uses)	<u>11,397</u>	<u>(238,603)</u>	<u>140,259,279</u>	<u>140,497,882</u>
SPECIAL ITEM				
Litigation settlement	-	-	(102,000,000)	(102,000,000)
Net change in fund balance	<u>\$ (74,222,596)</u>	<u>\$ (74,660,478)</u>	3,958,408	<u>\$ 78,618,886</u>
Fund balance - beginning			<u>73,725,958</u>	
Fund balance - ending			<u>\$ 77,684,366</u>	

**County of San Bernardino
Flood Control District
Combining Balance Sheet
Special Revenue Funds
June 30, 2007**

	Zone 1	Zone 2	Zone 3	Zone 4
ASSETS				
Cash and cash equivalents	\$ 24,907,481	\$ 6,235,856	\$ 4,205,789	\$ 22,725,899
Cash with fiscal agent	3,165,256	-	-	-
Restricted cash	113,711	-	-	-
Customer deposits	60,000	-	-	-
Interest receivable	233,635	76,182	50,363	79,665
Taxes receivable	1,403,569	573,518	348,745	451,793
Other receivable	9,500,000	-	-	-
Due from other funds	-	-	-	-
Due from other governments	686,220	-	59,733	50,000
Total assets	<u>\$ 40,069,872</u>	<u>\$ 6,885,556</u>	<u>\$ 4,664,630</u>	<u>\$ 23,307,357</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,133,392	\$ 63,615	\$ 20,131	\$ -
Salaries and benefits payable	318,199	181,372	107,801	111,504
Retention payable	2,744,876	-	-	-
Due to other funds	-	-	-	-
Due to other governments	202,225	96,006	1,151,716	21,351
Deferred revenue	-	9,450	-	-
Customer deposits	66,420	130,000	-	-
Total liabilities	<u>6,465,112</u>	<u>480,443</u>	<u>1,279,648</u>	<u>132,855</u>
Fund Balances:				
Reserved for:				
Encumbrances	3,732,680	966,703	134,850	479,151
Unreserved:				
Undesignated	29,872,080	5,438,410	3,250,132	22,695,351
Total fund balances	<u>33,604,760</u>	<u>6,405,113</u>	<u>3,384,982</u>	<u>23,174,502</u>
Total liabilities and fund balances	<u>\$ 40,069,872</u>	<u>\$ 6,885,556</u>	<u>\$ 4,664,630</u>	<u>\$ 23,307,357</u>

Schedule Two

Zone 5	Zone 6	Administration	LADP	Total
\$ 1,097,258	\$ 2,206,229	\$ 1,644,326	\$ 5,297,973	\$ 68,320,811
-	-	-	-	3,165,256
-	-	-	-	113,711
-	-	-	-	60,000
12,114	24,513	21,161	61,769	559,402
33,719	108,952	182,381	-	3,102,677
-	-	-	-	9,500,000
-	-	10,091	-	10,091
300,000	50,000	184,065	627,489	1,957,507
<u>\$ 1,443,091</u>	<u>\$ 2,389,694</u>	<u>\$ 2,042,024</u>	<u>\$ 5,987,231</u>	<u>\$ 86,789,455</u>
\$ -	\$ 21,787	\$ 70,626	\$ 7,071	\$ 3,316,622
3,929	40,487	57,662	51,380	872,334
-	-	-	-	2,744,876
-	-	91	10,000	10,091
2,257	88,058	139,145	254,538	1,955,296
-	-	-	-	9,450
-	-	-	-	196,420
<u>6,186</u>	<u>150,332</u>	<u>267,524</u>	<u>322,989</u>	<u>9,105,089</u>
-	23,452	451,916	407,482	6,196,234
<u>1,436,905</u>	<u>2,215,910</u>	<u>1,322,584</u>	<u>5,256,760</u>	<u>71,488,132</u>
<u>1,436,905</u>	<u>2,239,362</u>	<u>1,774,500</u>	<u>5,664,242</u>	<u>77,684,366</u>
<u>\$ 1,443,091</u>	<u>\$ 2,389,694</u>	<u>\$ 2,042,024</u>	<u>\$ 5,987,231</u>	<u>\$ 86,789,455</u>

**County of San Bernardino
Flood Control District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Special Revenue Funds
June 30, 2007**

	Zone 1	Zone 2	Zone 3	Zone 4
REVENUES				
Property taxes	\$ 15,037,389	\$ 6,263,962	\$ 3,489,597	\$ 4,547,318
Other taxes	1,421,671	631,375	324,569	371,063
Governmental aid	14,654,023	1,410,998	1,026,300	529,924
Rents, concessions and royalties	1,114,751	1,441,064	227,448	100,840
Interest	1,653,705	372,264	242,479	1,244,924
Other revenues	10,293,300	41,780	11,840	19,959
Total revenues	<u>44,174,839</u>	<u>10,161,443</u>	<u>5,322,233</u>	<u>6,814,028</u>
EXPENDITURES				
Salaries and benefits	4,385,247	2,681,441	1,754,175	1,211,137
Services and supplies	45,369,441	3,285,887	2,719,393	1,416,603
Debt service:				
Principal	26,448,021	-	165,000	-
Interest	8,331,345	212,854	580,819	-
Bond issuance costs	1,550,667	-	-	-
Capital outlay:				
Equipment	-	-	-	-
Structures and improvements	-	-	-	-
Total expenditures	<u>86,084,721</u>	<u>6,180,182</u>	<u>5,219,387</u>	<u>2,627,740</u>
Excess of revenues over (under) expenditures	<u>(41,909,882)</u>	<u>3,981,261</u>	<u>102,846</u>	<u>4,186,288</u>
OTHER FINANCING SOURCES (USES)				
Judgment obligation bonds issued	103,780,000	-	-	-
Refunding bond issued	23,845,000	-	-	-
Loan issued	9,552,977	-	-	-
Premium on judgment obligation bond debt	423,486	-	-	-
Premium on refunding bond debt	1,385,168	-	-	-
Discount on judgment obligation bond debt	(454,077)	-	-	-
Transfer from County	-	-	-	-
Transfers in	3,489,000	250,000	482,834	-
Transfers out	(4,140,400)	(1,001,609)	(278,070)	(166,600)
Sale of capital assets	412,752	520,971	424,959	300
Total other financing sources (uses)	<u>138,293,906</u>	<u>(230,638)</u>	<u>629,723</u>	<u>(166,300)</u>
SPECIAL ITEM				
Litigation settlement	<u>(102,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(5,615,976)	3,750,623	732,569	4,019,988
Fund balances - beginning	<u>39,220,736</u>	<u>2,654,490</u>	<u>2,652,413</u>	<u>19,154,514</u>
Fund balances - ending	<u>\$ 33,604,760</u>	<u>\$ 6,405,113</u>	<u>\$ 3,384,982</u>	<u>\$ 23,174,502</u>

Schedule Three

Zone 5	Zone 6	Administration	LADP	Total
\$ 327,893	\$ 1,197,611	\$ 1,937,302	\$ -	\$ 32,801,072
28,799	94,362	182,073	-	3,053,912
4,595	6,364	159,904	2,379,966	20,172,074
-	19,358	-	-	2,903,461
61,179	94,243	76,086	285,561	4,030,441
833	157,557	8,304	348,417	10,881,990
423,299	1,569,495	2,363,669	3,013,944	73,842,950
103,200	514,349	2,096,478	1,390,991	14,137,018
457,868	438,867	1,265,773	1,603,961	56,557,793
-	-	42,000	-	26,655,021
-	-	2,806	-	9,127,824
-	-	-	-	1,550,667
-	-	9,523	-	9,523
-	-	105,975	-	105,975
561,068	953,216	3,522,555	2,994,952	108,143,821
(137,769)	616,279	(1,158,886)	18,992	(34,300,871)
-	-	-	-	103,780,000
-	-	-	-	23,845,000
-	-	-	-	9,552,977
-	-	-	-	423,486
-	-	-	-	1,385,168
-	-	-	-	(454,077)
-	-	-	367,743	367,743
-	-	1,343,400	85,000	5,650,234
(13,955)	(49,600)	-	-	(5,650,234)
-	-	-	-	1,358,982
(13,955)	(49,600)	1,343,400	452,743	140,259,279
-	-	-	-	(102,000,000)
(151,724)	566,679	184,514	471,735	3,958,408
1,588,629	1,672,683	1,589,986	5,192,507	73,725,958
\$ 1,436,905	\$ 2,239,362	\$ 1,774,500	\$ 5,664,242	\$ 77,684,366

